

MEMORANDUM OF UNDERSTANDING
between
INTERNAL REVENUE SERVICE
and

LIMITED ISSUE FOCUSED EXAMINATION (LIFE)

_____, hereinafter referred to as “the Taxpayer,” and the Internal Revenue Service (IRS) desire to enter into this Memorandum of Understanding (MOU) for a Limited Issue Focused Examination (LIFE). The Taxpayer and IRS have indicated their good-faith intentions to work diligently towards the timely completion of a LIFE examination.

Scope of the LIFE Examination:

In the mutual spirit of accomplishing these objectives, the IRS has provided a list of the full scope of issues identified in the risk analysis of this (these) return(s). Unless worker classification is specifically listed as a LIFE issue, it will not create a safe harbor under Section 530.

Based upon the following understandings and agreements, the IRS will limit the examination to the LIFE issues identified in the attached list. Any expansion of scope will require approval of the team manager.

(A) Periods to be Examined and Targeted Timeframe

This LIFE MOU will cover the examination of the following returns and does not include employment tax returns unless specifically identified below:

Form	Type of Tax	Period(s) Ending

It is expected that any Revenue Agents’ Report(s) will be issued on or before _____. If a significant event arises which could impact this date, it should be discussed immediately.

(B) Improved Understanding of the Taxpayer’s Business and Tax Return

The Taxpayer should provide, and/or continue to provide, the IRS with briefings to include items such as: overview of the industry, company structure, financial performance, accounting records, significant events or transactions occurring during the periods under examination, flow of relevant information from divisions and subsidiaries into the return preparation process, and other information that would facilitate the audit process. The Taxpayer should provide workpapers and supporting documentation for

selected transactions, accounts and/or Schedule M items.

The IRS should provide the Taxpayer with a listing of the identified accounts, transactions and/or Schedule M items that are expected to be examined by _____ so that they may be included in the briefings.

(C) Schedules of Agreed Rollover and Recurring Adjustments

The Taxpayer will provide the IRS with schedules and computations for all agreed rollover and recurring adjustments from any previously examined period, including the impact of any closing agreements or Appeals settlements. These items will be provided by _____.

(D) Establishing and Adhering to Materiality Thresholds for Scope Expansion

The IRS has determined the scope of the LIFE examination. To maintain the focus of the examination, the IRS and the Taxpayer agree that new issues should not be raised. The IRS will not expand the scope to new issues and the Taxpayer will not cause scope expansion through the submission of claims or affirmative issues unless the following thresholds are met:

The following issues will not be subject to a materiality threshold(s) and can be examined regardless of when they are identified: tax shelters, coordinated issues, fraudulent items, items contrary to public policy, worker classification issues, executive compensation, and LMSB Field Directive issues. The establishment of a materiality threshold will not impact the requirement to verify the correct tax liability computation and the correlative adjustments.

Although every attempt should be made to adhere to the materiality thresholds, both parties reserve the right to correct obvious computational/mathematical or accounting errors/omissions. These corrections must not be technical or legal in nature and should require little time to resolve.

Both parties recognize that the materiality thresholds set for this cycle or tax period cannot be automatically utilized in another cycle or tax period. If during the course of the examination, it is found that a stated accounting policy or practice has not been followed, the scope of the examination may be expanded for this issue without regard to the materiality threshold(s).

If a non-disclosed abusive tax shelter or listed transaction is discovered during the course of the examination, the IRS will expand the scope of the examination to include the issue.

(E) Identification of Claims and Affirmative Issues

All claims or affirmative issues exceeding the materiality threshold established in (D) above must be submitted by _____ and will be accompanied by supporting documentation.

(F) Communication

Communication is a key factor to the successful completion of a LIFE examination. In recognition of this, the Taxpayer and the IRS will schedule regular _____ meetings to discuss the status of the examination and to resolve any problems.

Any resolution of prior cycle/tax years will be shared as soon as it becomes available and its impact on the current examination will be discussed.

(G) Information Document Request (IDR) Management Process

The IRS and the Taxpayer recognize that it is generally beneficial to discuss requests for information before a formal IDR (Form 4564) is issued. The IRS and the Taxpayer will make a concerted effort to meet and discuss the purpose of the request, the specific records required, correct terminology and any other recommendations to assist the Taxpayer in satisfying the request efficiently and effectively.

All IDRs will contain a notation showing the due date of the IDR response. Unless the examiner and the Taxpayer agree on a specific date for answering a particular IDR, all IDRs will be due within ____ days of the issuance. If for any reason this date cannot be met, the Taxpayer should notify the IRS immediately.

The IRS should timely review IDR responses for completeness and discuss with the Taxpayer, if necessary.

The provisions of the IRS's IDR Management Process, Internal Revenue Manual (IRM 4.45.13), will be followed.

(H) Resolution of Notices of Proposed Adjustment – Form 5701 (NOPA)

The IRS and the Taxpayer recognize that both parties benefit from meaningful discussions of facts and technical positions prior to the issuance of a NOPA. The IRS will issue NOPA(s) as soon as reasonable grounds have been established. The Taxpayer agrees to respond to all NOPA(s) within ____ days of issuance, indicate agreement or disagreement, and state all relevant facts and legal arguments. The IRS and the Taxpayer will continually engage in discussions for the purpose of resolving factual or technical differences.

The IRS and the Taxpayer recognize the benefit of resolving issues at the earliest opportunity and commit to exploring the use Alternative Dispute Resolution tools.

(I) Termination of the LIFE Process

The LIFE process is a mutual undertaking and requires a great deal of cooperation and commitment by both parties. Significant or consistent failures by either party to adhere to the agreements set forth in this MOU may result in termination of the LIFE process.

Such failures include, but are not limited to:

- 1) Not adhering to IDR response times or providing incomplete responses
- 2) Not entering into issue resolution discussions
- 3) Filing claims below the materiality threshold or the filing of claims without supporting documentation
- 4) Filing claims above the materiality threshold(s) after the date specified
- 5) Not disclosing an abusive tax shelter or listed transaction
- 6) Not adhering to any other commitment(s) included in this MOU

Termination of this agreement may result in a reversion to a traditional, full scope examination. The scope may be expanded to include any or all of the issues identified in the list of full scope issues identified for this (these) return(s). This may extend the estimated completion date of the examination.

The undersigned representatives of the Taxpayer and the IRS hereby indicate their mutual agreement to the objectives and procedural guidelines established herein. It is understood by both parties that this document is intended to govern the conduct of the examination, but is not a legally enforceable agreement.

Signatures and date:

For the Taxpayer:

Title: _____

Date _____

For the IRS:

LMSB Team Manager

Date _____

Instructions for Completing the MOU

General Information

This MOU will apply only to the taxpayer named and will cover only the return(s) listed in section (A). Neither the IRS nor the Taxpayer may change any of the provisions, responsibilities, or language specified in this MOU. Only the blank spaces may be filled. Any change in the language would serve to eliminate consistency in the application of the LIFE process.

Document Header

Insert the Taxpayer's name.

Paragraph 1:

Enter the name of the taxpayer.

Scope of the LIFE Examination:

Provide the Taxpayer with a list of full scope and LIFE scope issues. The LIFE list should be attached to the MOU.

Section (A) - Periods to be Examined and Targeted Timeframes:

Enter the return form, type of tax, and tax period(s), to be covered by this MOU. This could be a Corporate Income Tax Return, a Partnership Return, an employment tax return, or another type of return. You may not mix legal entities, but may include multiple tax periods for the same taxpayer. A consolidated subsidiary is considered the same legal entity as its parent.

If additional years are added to the examination, either a new MOU may be executed for the new years or pen and ink changes may be made with appropriate initials.

Enter expected RAR date in MM/DD/YYYY format. If an employment tax examination is included in the MOU, separate RAR dates may be necessary.

Section (B) – Improved Understanding of the Taxpayer's Business and Tax Return

Enter the agreed date

Section (C) - Schedules of Agreed Rollover and Recurring Adjustments:

Enter the agreed date. The definitions of rollover and recurring issues are illustrated by this example:

FACTS: You examined a consolidated return and find that in one large subsidiary the taxpayer expensed the purchase of all office furniture. You adjusted this item and the taxpayer agreed. You did not expand the scope of the examination to include the other subsidiaries for this issue.

Rollover Issue: Since you capitalized the purchase in your examination, the taxpayer is entitled to additional depreciation in subsequent years. This would be the rollover adjustment.

Recurring Issue: Assuming that the taxpayer has not corrected their capitalization policy, the recurring issue would be the proper capitalization of office furniture purchases in the subsequent tax years (the years under examination) for **all**

subsidiaries. The taxpayer should identify the assets that should be capitalized and provide the computation for the depreciation.

Section (D) - Establishing and Adhering to Materiality Thresholds for Scope Expansion:

Insert language (or indicate there is an attachment) describing the materiality thresholds you have established to govern scope expansion for any new issues identified by the IRS or the Taxpayer claims and affirmative issues. Even if a threshold is met, managerial approval is required to expand the scope.

Ways of stating thresholds may include, but are not limited to:

- Income Items exceeding \$XX
- Expense Items exceeding \$XX
- Credits exceeding \$XX
- Balance Sheet accounts exceeding \$XX
- Schedule M-1/M-2 entries with a positive or negative value exceeding \$XX
- Credit based items exceeding \$XX
- Permanent Items exceeding \$XX
- Timing Items exceeding \$XX
- Credit Items exceeding \$XX
- Income items exceeding X% of Gross Receipts
- Expense item exceeding Y% of Total Expenses

The thresholds are set at the conclusion of the risk analysis. They may be based on the lowest dollar value for each type of issue included in the LIFE plan or another amount based on the examiner's professional judgment. The materiality thresholds may be established (or applied) either on the basis of the total consolidated return or any segment thereof (such as a subsidiary, legal entity, or division within a subsidiary).

Section (E) - Identification of Claims and Affirmative Issues:

Enter the agreed date

Section (F) - Communication:

Enter the agreed upon frequency of regular meetings

Section (G) - Information Document Request (IDR) Management Process:

Enter the agreed number of days

Section (H) - Resolution of Notices of Proposed Adjustment – Form 5701 (NOPA):

Enter the agreed upon number of days

Signatures:

The LIFE MOU must be signed by a responsible corporate officer, TMP, or authorized representative of the taxpayer and the IRS Team Manager.